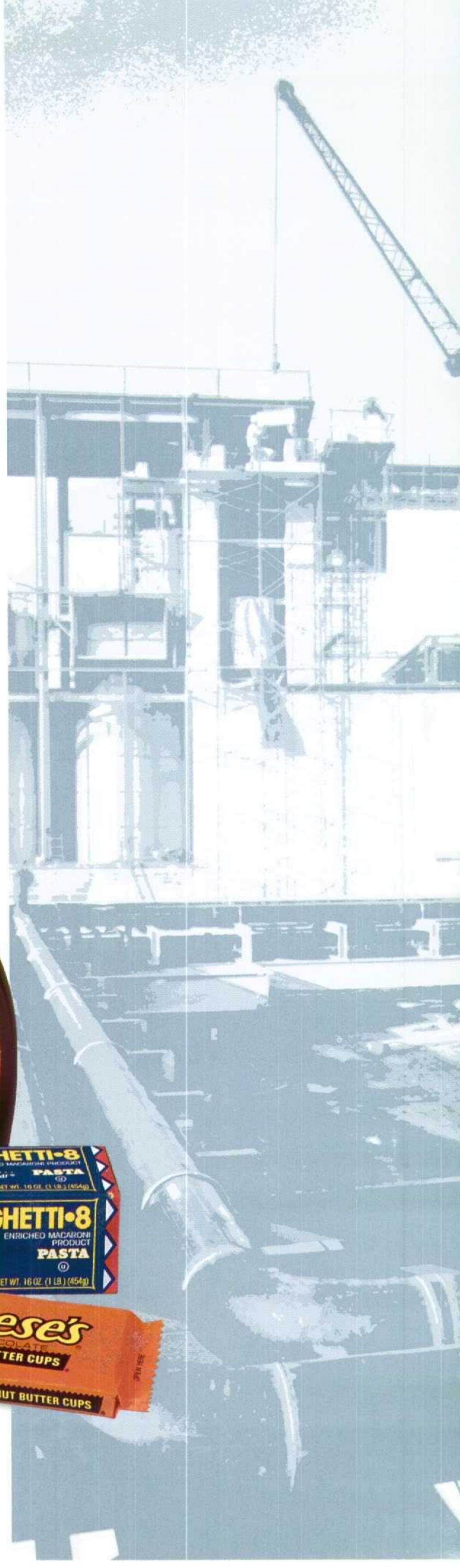
Hershey Foods Corporation

1991 ANNUAL REPORT



Building for the '90s and Beyond

LETTER TO STOCKHOLDERS

Richard A. Zimmerman (left), Chairman of the Board and Chief Executive Officer, and Kenneth L. Wolfe, President and Chief Operating Officer.

The fact that Hershey Foods Corporation achieved record sales and earnings in 1991 is a tribute to the dedication and effective work of our employees. It was a year in which the economies of the United States and Canada were soft, a confectionery price increase was implemented, competition was fierce, and the Commonwealth of Pennsylvania significantly increased corporate income taxes. It was also a year in which the strength of Hershey's franchise with the consumer coupled with our ability to provide products and services of consistently high quality and value proved their worth.

Our major divisions, Hershey Chocolate U.S.A., Hershey Canada Inc., Hershey Pasta Group and Hershey International, all posted record sales and earnings. While our operating divisions have consistently achieved excellent performance, rarely have they been confronted with such an unfriendly economic and competitive environment. The Corporation's financial results were excellent considering the climate in which they were achieved. This is particularly true given the continuation of significant expenditures to build our business for the '90s and beyond.

Two acquisitions during the year highlighted our progress toward our North American and worldwide leadership goals. In October 1991, our position in the Mexican market was enhanced by the Corporation's purchase of the shares of Nacional de Dulces, S.A. de C.V. owned by our joint venture partner. This acquisition will enable us to participate more fully in Mexico's economic progress.

To enhance our position on a worldwide basis, we know we must become a more meaningful player in the European markets which offer the greatest potential for growth. A step in this direction was the early 1991 purchase of Gubor Schokoladen, a chocolate business in Germany which produces and markets high-quality assorted pralines and seasonal chocolates under the *Gubor* brand name.

During 1991, the Corporation was able to build upon its strengths by continuing to be a respected and valued supplier of high-quality, branded, consumer food products in North America and selected international markets. We continued to leverage the strength of the Corporation's brands. As part of this strategy, distribution was expanded for *Hershey's* chocolate bar flavor puddings during 1991. We are confident that our investment will contribute to our future profitability, as well as establish a significant position in an important new grocery category for the Corporation—refrigerated products.

Another excellent example of this strategy is the January 1992 national introduction of *Reese's* peanut butter. This fine quality product will benefit from the consumer's association of the

Reese's brand with superior tasting peanut-based products.

Hershey Pasta Group built upon the strength of the *Ronzoni* brand with its successful 1991 introduction into the New England marketing area. This contributed to an excellent year for the Division.

Obviously, both new product introductions and established products require a substantial level of marketing support to compete effectively in the highly competitive markets in which we operate. In recent years our promotion and advertising expenditures have ranged between 15 and 17 percent of sales, and we expect this significant level of expenditure to continue. Investment in market share maintenance and growth is an important component of future profitability, and we are committed to building our market leadership positions for the long-term benefit of our businesses.

An extremely important area of investment for future growth is in capital spending programs to increase production capacity and enhance productivity. Our most substantial capital commitments currently include a new, highly-efficient chocolate-processing facility, and an adjacent finished goods production facility in Hershey, Pa., as well as a new state-of-the-art pasta "super plant" near Winchester, Va.

We also are mindful of our stockholders' desire for a reasonable return on their investment through stock price appreciation and dividends. Total return to the stockholder from stock price appreciation and dividends was approximately 21 percent in 1991 and has increased at a compound annual rate of nearly 26 percent over the past ten years assuming reinvestment of dividends. In 1991, the quarterly dividend on the Corporation's Common Stock was increased for the 17th consecutive year to $.245 per share, nine percent above the previous quarterly dividend rate.

Kenneth V. Hatt, former Chairman of the Board of Hershey Trust Company, retired from the Board of Directors on April 29, 1991. We acknowledge the valuable contributions he made during his three years of service to the Corporation. Also on April 29, 1991, Rod J. Pera, Managing Partner of McNees, Wallace and Nurick, a Harrisburg, Pa., law firm, and Chairman of the Board of Hershey Trust Company, was elected to the Board of Directors. In addition, on October 1, 1991, Vincent A. Sarni, Chairman and Chief Executive Officer of PPG Industries, Inc., was elected to the Board of Directors. We welcome the wealth of knowledge and experience both bring to our Board of Directors.

As we reflect on 1991 and look forward to a challenging 1992, we are confident that our objectives can be met because of the outstanding efforts of Hershey Foods' employees. Every year they work smarter to turn challenges into opportunities, thereby building our businesses for the long-term benefit of employees and stockholders.

Richard A. Zimmerman
Chairman of the Board and
Chief Executive Officer

Kenneth L. Wolfe
President and Chief
Operating Officer

Hershey Chocolate U.S.A.

Hershey Chocolate U.S.A. achieved record sales in 1991 despite a difficult economic environment and intense competitive activity. In the past, consumers generally have continued to purchase chocolate and confectionery products during a stressed economy, but consumers seem to have been more conservative with their purchases during 1991. In addition, many retailers took measures to keep their inventories at lower levels because of the uncertainty surrounding consumer spending.

The confectionery industry experienced modest sales growth of approximately three percent in 1991. Hershey Chocolate U.S.A.'s market share leadership narrowed somewhat during 1991, as sales increases fell somewhat short of the industry trend. The Division's sales were also impacted by competitors' introductions of numerous new products, brand extensions and additional pack-types. The Division will continue to monitor competitive activity closely and will take appropriate steps to maintain its leadership position in the U.S. confectionery market in the years ahead.

Another challenge to achieving sales growth in 1991 was consumer reaction to the price increase taken on standard bars and certain other pack-types in February. This was the first price increase in the standard bar line since January 1986, and there was some trade and consumer resistance throughout the year. As the year drew to a close, however, sales volumes were increasing.

New Products and Line Extensions

New products made a significant contribution to the Division's growth in 1991. Together with line extensions, they have been a key strategy for Hershey Chocolate U.S.A. In recent years, the Division has invested heavily to introduce new products.

Hershey's Kisses With Almonds chocolates was the Division's most significant new product effort in 1991. Introduced to the national market in late 1990, this product solidified its position within the top-20 U.S. candy brands during 1991. Top-20 status is very difficult to achieve, and few new brands have been able to reach this sales level in recent years. *Hershey's Kisses With Almonds* chocolates did it in less than one year of national distribution and was clearly the most successful new product introduction in the Corporation's history.

Building Teamwork to Enhance Total Quality

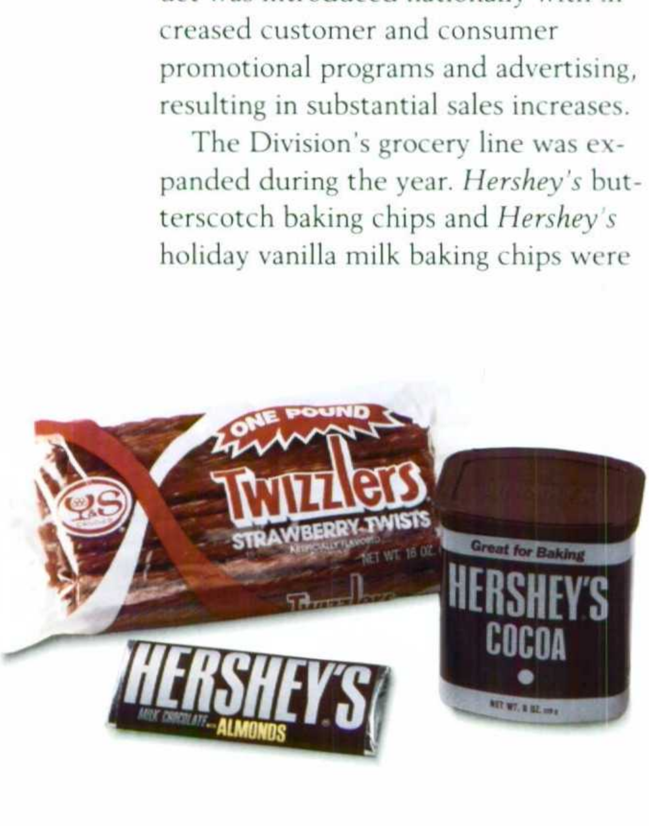
Hershey Chocolate U.S.A. is instituting pilot programs in various plant locations to encourage greater employee involvement in the decision-making process. Employees Mary Cope (center) and Veronica Purdy (right) exchange ideas and discuss operational improvements at the H.B. Reese manufacturing plant with Supervisor Sandra Wolfersberger. In 1991, attention to team building provided the Corporation with productivity gains and enhanced product and service quality, while creating a more positive work environment for employees.

Brand Name Value

The Division continues to build on the value associated with its brand names, which are important assets of the Corporation. In 1991, Hershey Chocolate U.S.A. was a recipient of the Equitrend Outstanding Quality Award. This award was based on a national survey conducted by Total Research Corporation which measured how consumers perceived the quality of 190 nationally recognizable brand names. *Hershey's* milk chocolate bar was the highest rated confectionery brand. This award is an acknowledgement of the commitment the employees of Hershey Chocolate U.S.A. have made to quality in all products.

Reese's crunchy peanut butter cups were reformulated to contain three times as many chopped peanuts. In January 1991, the reformulated product was introduced nationally with increased customer and consumer promotional programs and advertising, resulting in substantial sales increases.

The Division's grocery line was expanded during the year. *Hershey's* butterscotch baking chips and *Hershey's* holiday vanilla milk baking chips were two additions to the *Hershey's* line of quality baking products. Building on the 1990 successful introduction of *Hershey's* Chocolate Shoppe toppings, two new flavors were added to the product line: butterscotch caramel fudge and chocolate caramel fudge. In addition, Hershey Chocolate U.S.A. entered a new grocery category with the January 1992 national launch of *Reese's* peanut butter. Thus far, acceptance of these new products has been quite gratifying.



Seasonal varieties are an important aspect of Hershey Chocolate U.S.A.'s business, especially as it relates to packaged candies such as *Hershey's Kisses* chocolates, *Hershey's Miniatures* chocolate bars, *Reese's Miniatures* peanut butter cups, *York* peppermint patties, and *Rolo* caramels in milk chocolate. These bite-size products are very popular with adult consumers, and, when wrapped in seasonal colors, they have tremendous consumer appeal. Both Easter and Christmas seasonal sales set new records for *Hershey's* packaged goods as well as for specially-shaped products such as *Reese's* peanut butter eggs, *Almond Joy* coconut eggs and *Mounds* coconut eggs for Easter, and *Reese's* peanut butter Christmas trees introduced in 1991. While Halloween is more oriented toward candy bars, it, too, was a record season for the Division in 1991.

Record Earnings

Hershey Chocolate U.S.A. posted record earnings in 1991 as a result of stronger margins and the sales increase. Productivity improvements throughout

the organization and manufacturing efficiencies resulting from the Division's capital investment program continue to play a critical role in the successful performance of Hershey Chocolate U.S.A.

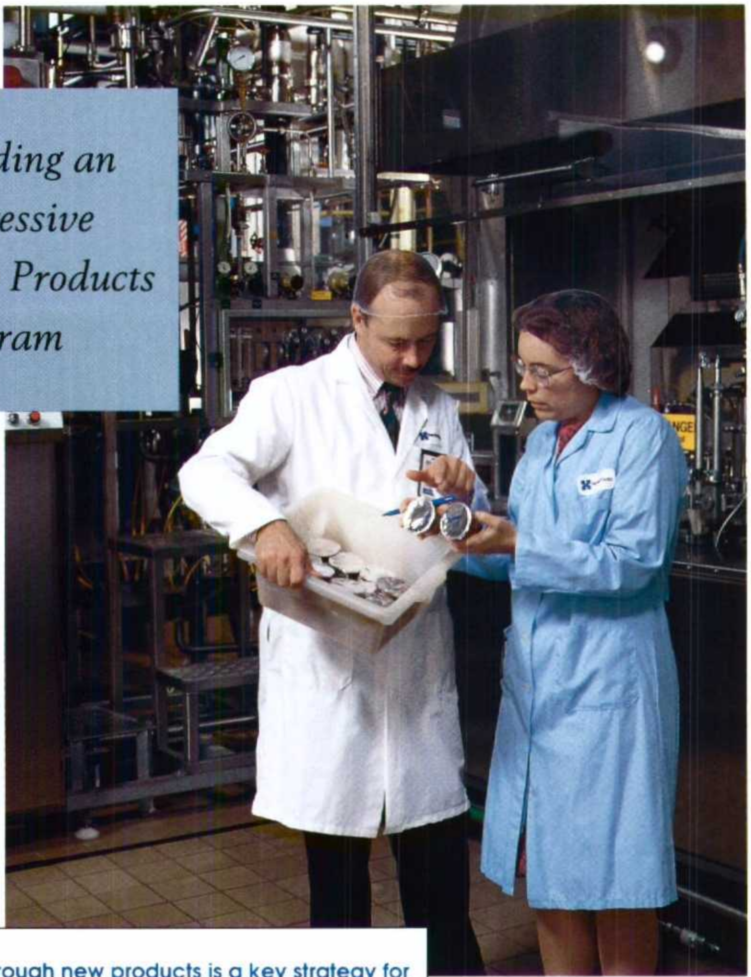
Important factors contributing to the need for the price increase in early 1991 were the increased cost of peanuts in late 1990 and the cumulative cost pressures for packaging, distribution, overhead, labor and employee benefits. While peanut prices declined in late 1991, costs of benefits, in particular, continued to increase. Largely due to the skyrocketing costs of medical care, costs of benefits have grown significantly over the last five years.

Capital Investments

Hershey Chocolate U.S.A. is in the midst of an aggressive capital investment program to meet its capacity and productivity needs in the competitive environment of the '90s. Construction of a highly-efficient chocolate-processing facility in Hershey, Pa., is scheduled for completion in late 1992. The 160,000-square-foot facility will process chocolate to be used primarily by the main Hershey, Pa., plant in the manufacture of confectionery products. In addition, a 180,000-square-foot building will be constructed adjacent to the processing facility to produce finished goods and provide flexibility for future growth.

In May 1991, an ultra-high temperature fluid milk-processing plant was purchased in Savannah, Ga. The manufacturing facility has state-of-the-art processing equipment and produces aseptically-packaged drink products. The 115,000-square-foot facility provides Hershey Chocolate U.S.A. with capacity to produce *Hershey's* chocolate drink and confirms the Division's commitment to this product line.

Building an Aggressive New Products Program



Growth through new products is a key strategy for Hershey Foods. In recent years, the Corporation has invested substantial resources to introduce new products. An important portion of the recent sales growth in the U.S. confectionery industry can be attributed to new product activity, and Hershey Foods is playing a leading role. Dave Cin, Group Leader, and Susan Hetrick, Senior Research Scientist, examine new items in Hershey Foods' research and development area where product prototypes are created and tested.

Building on the Strength of Our Brand Names

Two of the Corporation's most powerful assets are its *Hershey's* and *Reese's* brand names, which are immediately associated with high-quality products. Examples of Hershey Chocolate U.S.A.'s efforts to build on these brand strengths include the introduction of *Hershey's* chocolate drink and *Reese's* peanut butter (photo above), which marked the Division's entries into new grocery categories. "The Chocolate Box," introduced in 1990, achieved the leadership position in the aseptically-packaged chocolate drink category in 1991. *Reese's* peanut butter enjoyed encouraging customer acceptance during its national introduction in January 1992.

A new data center became operational in April 1991. This facility accommodates the growing information processing needs of not only the Division, but also the Corporation as a whole. In addition, it serves to recognize that information is a valuable resource that can be utilized to provide a competitive advantage. Systems operations have been upgraded and consolidated for greater efficiency and effectiveness in order to meet the demands of a highly competitive marketplace.

Industry Leadership

During 1991, the employees of the Division's Stuarts Draft, Va., plant achieved a new safety record for the U.S. confectionery industry, having worked more than 2.3 million labor-hours without a lost-time accident. Increased safety leads to increased productivity, and Hershey Chocolate U.S.A. continues to enjoy the benefit of a workforce which considers productivity and quality improvement as key elements in remaining competitive in the marketplace.

Looking ahead, the Division expects a continuing high level of capital expenditures to increase and improve production capacity. These production capacity enhancements, together with marketing activities to increase sales, will be the key to Hershey Chocolate U.S.A.'s future profitable growth. This will help ensure that the Division remains a leader in the U.S. confectionery market by providing quality and value to the consumer through its chocolate and confectionery products.

Hershey Canada Inc.

Hershey Canada Inc. posted record sales and earnings, and achieved solid market share gains in 1991 despite a very difficult market. The Canadian confectionery and peanut categories suffered sales volume declines during the year as a result of the generally lackluster economy in Canada and consumer resistance to higher prices.

A fundamental change in sales tax legislation at the beginning of the year led manufacturers to significantly reduce their prices. The manufacturers' sales tax, previously included in the selling price to retailers, was replaced by a seven-percent value-added tax ultimately collected from consumers at the retail level.

In response to the manufacturers' price reductions, it was anticipated that savings would be passed on to the consumer through reduced retail prices. However, many retailers left prices unchanged, resulting in a seven-percent price increase on confectionery products for consumers. This had a detrimental effect on industry sales during most of the year. However, in late 1991, the Canadian economy began to show signs of improvement and some retailers reduced confectionery product prices, both of which had a beneficial impact on confectionery sales.

After a slow start, Hershey Canada's sales finished the year with a flourish, raising total 1991 revenues to a record level. The strengthening of the

Building a North American Manufacturing Strategy

Hershey Canada Inc. continues to improve its profitability as a result of a plant rationalization and modernization program. Further improvements are expected as the Corporation continues to develop its North American manufacturing strategy by combining efforts between operations in the U.S. and Canada. Hershey Canada's Ken Allcock (center) and Jean Letarte (right) discuss manufacturing technology with John Rogers (left), Supervisor at the main Hershey, Pa., plant.

exchange rate for the Canadian dollar also helped bolster Hershey Canada's results for the year.

Strong Chocolate Performance

Much of the Division's sales growth resulted from a strong performance by the chocolate business. This growth was stimulated by standard bars with *Oh Henry!* chocolate bar and *Reese Peanut Butter Cups* candy leading the way to record market share in the category. In addition, seasonally wrapped products showed exceptional growth, further contributing to the Division's fine performance.

The *Moirs* boxed chocolate business was also a major contributor to improved sales in 1991. *Pot of Gold* chocolates became the leading assorted boxed chocolates brand in Canada during 1991 and provided the impetus for Hershey Canada's outstanding growth in this category.

Planters shelled nuts had a very difficult year as the poor 1990 U.S. peanut crop resulted in a significant rise in 1991 costs. Price increases and reductions in product weights required to offset spiraling peanut costs produced double-digit declines in purchases by consumers. Nevertheless, the *Planters* brand fared better than the market by gaining increases in share, thereby reinforcing the brand's leadership position.

A North American manufacturing strategy was initiated for Hershey Canada in late 1990. Under this strategy, the responsibility for Hershey Canada's manufacturing operations was combined with that of Hershey Chocolate U.S.A. to more effectively utilize the extensive resources of the U.S. confectionery division. The goals of this initiative are to modernize the Canadian manufacturing operation, to capitalize on synergies in producing like items and to provide manufacturing flexibility throughout North America.

Hershey Canada made great strides toward achieving improved levels of sales and profitability in 1991. Continued investment in manufacturing modernization programs, consumer-focused marketing programs and employee productivity will enable the Division to improve upon its 1991 performance. Hershey Canada is poised to play an even greater role in the Canadian confectionery market in the '90s and beyond.

Hershey Refrigerated Products

Hershey Refrigerated Products achieved strong sales growth and substantial market expansion in 1991, in the midst of a highly competitive environment and a market which grew at a slower rate than in preceding years. Distribution of *Hershey's* chocolate bar flavor puddings expanded from 60 percent to 85 percent of the United States during the year, and national distribution is expected by mid-1992.

New Flavors

Building on the success of *Hershey's* chocolate bar brands, two new flavors, *Hershey's Special Dark* chocolate fudge and *Cadbury's Caramello* chocolate and caramel, were added to *Hershey's* chocolate bar flavor pudding line for the back-to-school selling season. Though new to the pudding line, these flavors are already enjoyed as chocolate bars by millions of consumers.

In a little more than two years, *Hershey's* chocolate bar flavor puddings, which are sold through grocery stores, grocery wholesalers and wholesale clubs, have captured a significant share of the refrigerated pudding category and continue to win new customers.

During 1991, Hershey Refrigerated

Products continued efforts to fine-tune its manufacturing capabilities and develop additional line extensions and pack-types. As a result of these efforts, significant production efficiencies were achieved. Hershey Refrigerated Products expects to introduce several new products during 1992.

The significant investment in marketing and manufacturing capabilities reinforces the Corporation's long-term commitment to the refrigerated pudding category. Marketing support for the new product line continues to focus on promoting America's favorite name in chocolate as America's favorite name in refrigerated pudding.

Hershey International

Hershey International had an exciting and outstanding year in which its sales and earnings grew substantially as a result of acquisitions and higher export sales.

On the acquisition front, the purchase of the Gubor Schokoladen GmbH and Gubor Schokoladenfabrik GmbH chocolate business from H. Bahlsens Keksfabrik KG in 1991 was a major contributor to sales and earnings growth for the entire year. This business operates two manufacturing plants in southern Germany and produces, markets and distributes high-quality

Building Ties Internationally

Hershey Foods took several steps in 1991 to expand its presence in international markets. One such step was the purchase of Gubor Schokoladen with the intent of making investments to expand the European distribution of Gubor's high-quality assorted pralines and seasonal chocolates. Here, Detlef Stachel (standing), Gubor Managing Director, meets to discuss German operations with Ken Beers, Controller, and Lori Zimmerman, Senior Accountant, both of Hershey International.

assorted pralines and seasonal chocolates under the *Gubor* brand name. Thus far, the brand has proved to have a stronger consumer franchise than anticipated and Hershey International plans to expand the distribution of *Gubor* products. This acquisition provides the Corporation with a foundation in Europe for long-term growth in this important market.

Brand Expansion

Another development for Hershey International was the late 1991 purchase of the shares of Nacional de Dulces, S.A. de C.V. owned by the Corporation's joint venture partner. This purchase will enable the Division to expand the *Hershey's* brand name and franchise in Mexico.

Nacional de Dulces has its headquarters and manufacturing plant in Guadalajara, Mexico. It markets both locally-produced chocolate products under the *Hershey's* brand name and imported *Hershey's* products throughout Mexico. Nacional de Dulces completed a capital investment program in late 1991 which will substantially increase the capacity and efficiency of its plant.

Building on the success of *Hershey's* imported products in Mexico, Hershey International's export sales enjoyed excellent growth during 1991. Primary contributors to these sales increases were *Hershey's* chocolate drink, *Hershey's* milk chocolate bar with almonds, *Hershey's Kisses* chocolates, *Hershey's Kisses With Almonds* chocolates and *Almond Joy* candy bar. Far East region sales were also spurred by the introduction of *Hershey's Kisses With Almonds* and *Hershey's Kisses* extra creamy milk chocolates, and

Hershey's extra creamy milk chocolate bars in the Philippines, South Korea and Japan. The extra creamy products are a new formulation specifically developed for international markets where consumers prefer a more European chocolate taste. Export earnings for 1991 increased over 1990 as a result of the higher sales volumes.

Building on Alliances

Hershey International continued to build on its international strategic alliances by signing a licensing agreement in August 1991 with Maeil Dairy Industry Co., Ltd. of South Korea to use the *Hershey's* trademark for chocolate drink.

Hershey International's 1991 activities represented a significant step toward the Corporation's goal of increasing worldwide confectionery market share by establishing a presence in Europe, enhancing its Mexican operations and increasing export sales. The year 1992 should prove to be equally exciting as the Division continues to build on its expanded international presence.

Building Upon New Pasta Technology

Hershey Pasta Group has enjoyed excellent growth over the last few years by constantly striving to reduce the cost of production by improving manufacturing efficiency. Omaha, Neb., plant employees, Ann Casey and Joe Rizzo, monitor operation of new high-speed packaging equipment, one of several new high-tech lines the Division has added. In 1991, Hershey Pasta Group broke ground for the construction of a 180,000-square-foot, state-of-the-art "super plant" near Winchester, Va., to increase capacity and take further advantage of improvements in pasta-making technology.

Hershey Pasta Group

Hershey Pasta Group had an exceptional year in 1991, achieving record sales, earnings and market share. The Division achieved strong volume growth in its branded, private label and food service businesses.

Volume growth was particularly strong in the *Ronzoni*, *American Beauty*, *San Giorgio* and *Light 'N Fluffy* brands. This growth was achieved through gains in both established markets and in new geographic expansion. Particularly gratifying were the volume gains achieved through geographic expansion which included the introduction of the *Ronzoni* brand into the high-consumption, highly competitive New England marketing area.

Pasta Consumption Climbing

Americans continue to eat more pasta each year. Per capita consumption of pasta rose to 19.0 pounds in 1991 from 18.4 pounds in 1990. Over the last ten years, per capita consumption of pasta has grown nearly 50 percent and shows no signs of slowing.

Pasta, a versatile and low-cost food, is an excellent source of complex carbohydrates. Today's consumer appreciates these important qualities as evidenced by a 1991 Gallup Poll which found pasta to be one of the top three favorite foods of Americans today. Hershey Pasta Group's marketing activities support this trend by offering consumers new pasta varieties, nutritional information and recipes that demonstrate new ways to enjoy pasta products.

The Division's record earnings in 1991 resulted from both volume growth and productivity gains. Hershey Pasta Group continued to seek opportunities to increase quality, reduce costs, and further enhance customer service through improved utilization of technology and active employee participation in its Excellence Through Quality Service program and philosophy. These efforts yielded substantial safety and productivity gains in 1991.

Efficient Production Lines

The Division's strong volume growth has required capital spending for additional manufacturing capacity. In the last three years, five highly-efficient production lines have been purchased and installed in various Hershey Pasta Group plants.

In November 1991, ground was broken for the construction of a new state-of-the-art "super plant," a 180,000-square-foot pasta manufacturing facility near Winchester, Va. The new plant will be a highly cost-effective pasta-processing facility, producing

pasta products of the highest quality. The plant will be totally integrated with manufacturing and packaging processes utilizing the latest microprocessor-controlled technology, on-site durum milling and, as always, the highest quality raw materials. The plant is scheduled to begin production in late 1993.

Hershey Pasta Group believes that success in the grocery industry in the '90s will require consistent quality products, efficient manufacturing facilities, excellent customer service and a highly motivated and involved workforce.

Hershey Pasta Group's commitment to these four principles is demonstrated by its investment in the latest pasta-making technology and its focus on the training and involvement of its workforce in identifying and meeting customer service needs and improving product quality.

This commitment has the Division well positioned for the '90s and beyond to meet increasing consumer demand for high-quality, nutritious pasta products.

Building Pasta Brand Image

In November 1991, nearly 15,000 runners in the *New York City Marathon* enjoyed the fifth consecutive pre-race pasta dinner sponsored by *Ronzoni*, the number-one pasta brand in the New York metropolitan area for the past 25 years. Olympic Marathon Gold Medalist Frank Shorter (center), flanked by *Ronzoni* "characters," served as spokesperson for the pasta event, extolling the benefits of pasta as an important source of complex carbohydrates for maintaining healthy lifestyles.

FINANCIAL REVIEW

Contents

Summary of Consolidated Operating Results

The Corporation achieved increased sales and net income in 1991 and 1990. Net sales during this two-year period increased at a compound annual rate of 9%, primarily reflecting volume growth from the Corporation's confectionery, pasta, international and refrigerated puddings businesses, acquisitions, and confectionery price increases.

On February 4, 1991, Hershey Chocolate U.S.A. increased by approximately 12½% the wholesale price of standard bars and certain other pack-types. These products represented more than one-quarter of the Corporation's annual sales. The increase was intended to cover the rising costs of certain raw materials, especially peanuts, petroleum-based packaging materials, fuel and employee benefits. The last price increase for standard bars was effective in January 1986. As expected, domestic confectionery sales volume declined during most of the year as a result of price increases, but recovered somewhat in late 1991.

Net income increased at a compound annual rate of 13% during the two-year period due to growth in sales, an improved gross profit margin and a lower effective income tax rate, partially offset by higher levels of selling, marketing and administrative expenses.

Summary of Financial Position and Liquidity

The Corporation's financial position remained strong during 1991. The ratio of current assets to current liabilities was 1.6 : 1 as of December 31, 1991 and 1.9 : 1 as of December 31, 1990. The Corporation's capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 22% as of December 31, 1991 and 19% as of December 31, 1990. The higher capitalization ratio reflected, in part, the establishment of an employee stock ownership trust (ESOP) in 1991.

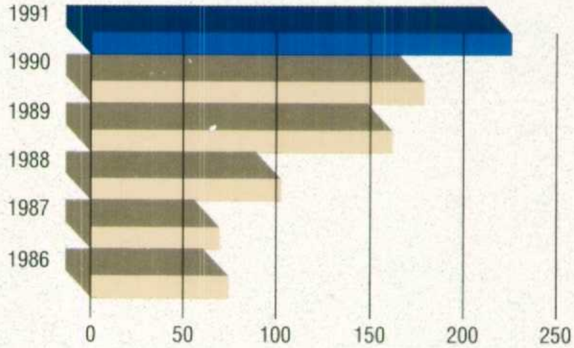
Historically, the Corporation's major source of financing has been cash generated from operations. Domestic seasonal working capital needs, which typically peak during the summer, generally have been met by issuing commercial paper.

During 1991, the Corporation's cash and cash equivalents increased by $44.5 million. Cash provided from operating activities was generally sufficient to finance capital additions, pay cash dividends and finance business acquisitions.

During the three-year period ended December 31, 1991, the Corporation's cash and cash equivalents increased by $1.1 million. Total debt increased by $79.6 million reflecting the financing of significant capital additions and several business acquisitions.

Capital Additions

(dollars in millions)



As of December 31, 1991, the Corporation's principal capital commitments included the construction of a chocolate-processing facility, a pasta "super plant," and manufacturing capacity expansion and modernization. The Corporation anticipates that capital expenditures will be in excess of $225 million per annum during the next several years as a result of the construction of the new facilities discussed above and continued modernization of existing facilities.

In February 1991, the Corporation issued $100 million of 8.8% Debentures due 2021 (Debentures), under a Form S-3 Registration Statement (Registration Statement) which was declared effective in June 1990. As of December 31, 1991, $100 million of additional debt securities remained available for issuance under the Registration Statement.

In the fourth quarter of 1991, the Corporation established an ESOP to serve as the vehicle for the Corporation's contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP

was funded by a 7.75% loan of $47.9 million from the Corporation. The proceeds from this loan were used by the ESOP to purchase from the Corporation 1,193,816 shares of its Common Stock at a market price of $40 ⅛ per share. This stock had been acquired by the Corporation through open market purchases. The Corporation will begin making contributions to the ESOP in 1992. Further discussion of the ESOP can be found in Note 10 to the consolidated financial statements.

Acquisitions

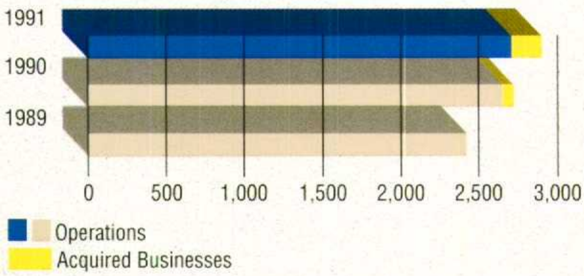
Operating results during the period were impacted by the following acquisitions:

- October 1991 — Purchased the shares of Nacional de Dulces, S.A. de C.V. (NDD) owned by its joint venture partner, Grupo Carso, S.A. de C.V. Prior to this transaction, the Corporation owned 50% of NDD. NDD has its main offices and manufacturing plant in Guadalajara, Mexico. It produces, imports and markets chocolate products for the Mexican market under the *Hershey's* brand name.
- May 1991 — Acquired from Dairymen, Inc. certain assets of its ultra-high temperature fluid milk-processing business (aseptically-packaged drink business), including a Savannah, Georgia manufacturing facility.
- May 1991 — Completed the acquisition of the Gubor Schokoladen GmbH and Gubor Schokoladenfabrik GmbH (Gubor) chocolate business from H. Bahlsens Keksfabrik KG. Gubor, which operates two manufacturing plants in Germany, produces and markets high-quality assorted pralines and seasonal chocolates under the *Gubor* brand name. The transaction was effective as of January 1, 1991.
- February 1990 — Acquired from Kraft General Foods, Inc. all of the outstanding voting securities of Ronzoni Foods Corporation (Ronzoni). The purchase included Ronzoni's dry pasta, pasta sauces and cheese businesses.

A further discussion of these acquisitions can be found in Note 3 to the consolidated financial statements.

Contribution to Net Sales of Businesses Acquired 1989-1991

(dollars in millions)



In March 1991, the Corporation chose not to proceed with the previously announced acquisition of the American Italian Pasta Company due to opposition by the U.S. Department of Justice.

Other Items

The most significant raw material used in the production of the Corporation's chocolate and confectionery products is cocoa beans. Generally, the Corporation has been able to offset the effects of increases in the cost of this raw material through selling price increases or reductions in product weights. Conversely, declines in the cost of cocoa beans have served as a source of funds to maintain selling price stability, enhance consumer value through increases in product weights, respond to competitive activity, develop new products and markets, and offset rising costs of other raw materials and expenses.

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors, including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates and speculative influences. Over the last few years, the market price of cocoa beans and cocoa futures has declined as a result of a worldwide excess supply. While market prices were stable to somewhat higher in 1991, cocoa futures traded in a wide range during the year. Similar market conditions are expected to continue during the first part of 1992. The Corporation's costs will not necessarily reflect market price fluctuations because of its forward purchasing

practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans.

Market prices for peanuts were at record high levels at the beginning of 1991 as hot, dry weather in the southeastern United States reduced the 1990 crop yield and quality. Prices remained at historically high levels during most of 1991 but declined significantly in the fourth quarter due to an improved 1991 crop. Fourth quarter 1991 price levels are expected to continue through most of 1992.

Hershey Chocolate U.S.A. will increase the wholesale price of its packaged candy products by approximately 5% in March 1992. These products represented approximately 15% of the Corporation's 1991 sales.

Effects of Inflation

The Corporation monitors the effects of inflation and takes various steps, including selling price and product weight changes, to minimize its impact on the Corporation's business. The use of the last-in, first-out (LIFO) method of inventory accounting for most inventories matches current costs with current revenues and, in periods of inflation, reduces income taxes and improves cash flow. The capital additions program, through investment in modern plant and equipment, provides for future sales growth and manufacturing efficiencies. These management practices have resulted in inflation having a minimal effect on comparative results of operations and financial condition for the most recent three years.

Capital Structure

The Corporation has two classes of stock outstanding, Common Stock and Class B Common Stock (Class B Stock). The Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

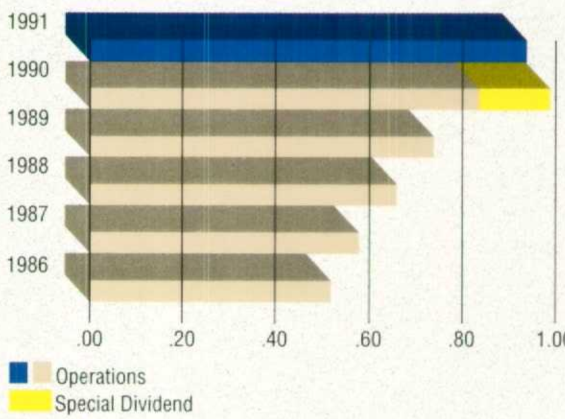
The Corporation's Common Stock is listed on the New York Stock Exchange (NYSE), which has a rule generally prohibiting dual classes of common stock. The NYSE's rule is based on a rule of the Securities and Exchange Commission (SEC), which has been vacated by court order, and the NYSE is currently reviewing its rule in light of this action. The Corporation's dual class structure has been grandfathered under both the NYSE's current rule and the SEC's vacated rule.

Market Prices and Dividends

Regular cash dividends paid on the Corporation's Common Stock and Class B Stock were $83.4 million in 1991 and $74.5 million in 1990. In 1990, the Corporation paid a special dividend of $13.3 million as a result of the one-time gain realized on the sale of its equity interest in AB Marabou (Marabou). The regular annual dividend rate on the Common Stock is $.98 per share, an increase of 9% over the 1990 rate of $.90 per share. The 1991 dividend represents the 17th consecutive year of Common Stock dividend increases.

Dividends Paid Per Share of Common Stock

(dollars)



On February 4, 1992, the Corporation's Board of Directors declared a regular quarterly dividend of $.245 per share of the Common Stock payable on March 13, 1992, to stockholders of record as of February 26, 1992. It is the Corporation's 249th

consecutive regular Common Stock dividend. A regular quarterly dividend of \$.2225 per share of the Class B Stock was also declared.

Hershey Foods Corporation's Common Stock is listed and traded principally on the NYSE under the ticker symbol "HSY." Approximately 28.0 million shares of the Corporation's Common Stock were traded during 1991. The closing price of the Common Stock on December 31, 1991 was \$44 3/8. The Class B Stock is not publicly traded. There were 31,029 stockholders of record of the Common Stock and the Class B Stock as of December 31, 1991.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past two years:

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
1991				
1st Quarter	\$.2250	\$.2025	\$42 3/8	\$35 1/8
2nd Quarter	.2250	.2025	43 7/8	39 5/8
3rd Quarter	.2450	.2225	42 5/8	38 1/2
4th Quarter	.2450	.2225	44 1/2	36 1/2
	\$.9400	\$.8500		
1990				
1st Quarter	\$.1950	\$.1750	\$36 5/8	\$28 1/4
2nd Quarter	.1950	.1750	38 1/8	30 3/4
3rd Quarter	.2250	.2025	39 5/8	32 3/4
4th Quarter	.2250	.2025	38 7/8	33 3/4
	.8400	.7550		
Special Dividend	.1500	.1350		
	\$.9900	\$.8900		

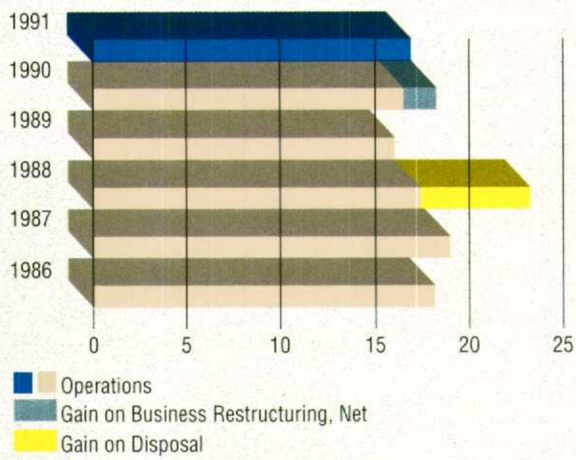
* NYSE-Composite Quotations for Common Stock by calendar quarter.

Operating Return on Average Stockholders' Equity

The Corporation's operating return on average stockholders' equity was 17.0% in 1991. Over the most recent six-year period, the return has ranged from 16.1% in 1989 to 19.0% in 1987. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the net gain on the sale of Friendly Ice Cream Corporation (Friendly) in 1988 and the net gain on business restructuring in 1990.

Return on Average Stockholders' Equity

(percent)

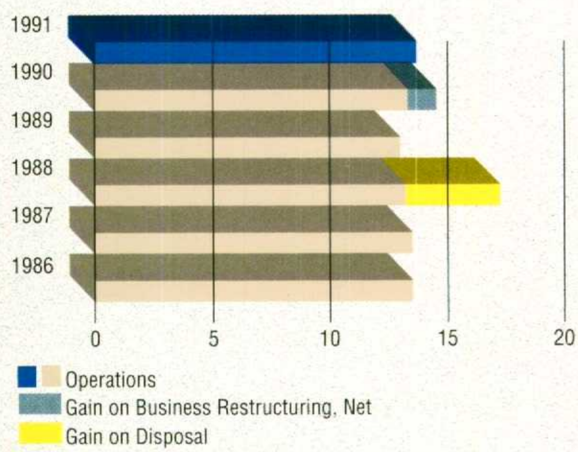


Operating Return on Average Invested Capital

The Corporation's operating return on average invested capital was 13.8% in 1991. Over the most recent six-year period, the return has ranged from 13.2% in 1989 to 13.8% in 1991. Average invested capital consists of the annual average of beginning and ending balances of long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as the sum of net income, excluding the net gains on the sale of Friendly and business restructuring, and the after-tax effect of interest on long-term debt.

Return on Average Invested Capital

(percent)



CONSOLIDATED STATEMENTS OF INCOME

(in thousands of dollars except per share amounts)

For the years ended December 31,	1991	1990	1989
Net Sales	$2,899,165	$2,715,609	$2,420,988
Costs and Expenses:			
Cost of sales	1,694,404	1,588,360	1,455,612
Selling, marketing and administrative	814,459	776,668	655,040
Total costs and expenses	2,508,863	2,365,028	2,110,652
Gain on Business Restructuring, Net	—	35,540	—
Income before Interest and Income Taxes	390,302	386,121	310,336
Interest expense, net	26,845	24,603	20,414
Income before Income Taxes	363,457	361,518	289,922
Provision for income taxes	143,929	145,636	118,868
Net Income	$ 219,528	$ 215,882	$ 171,054
Net Income per Share	$ 2.43	$ 2.39	$ 1.90

Cash Dividends Paid per Share:			
Common Stock—Regular	$ .940	$ .840	$ .740
Common Stock—Special	—	.150	—
Class B Common Stock—Regular	.850	.755	.665
Class B Common Stock—Special	—	.135	—

The notes to consolidated financial statements are an integral part of these statements.

Net Sales

Net sales rose $183.6 million or 7% in 1991 and $294.6 million or 12% in 1990. The increase in 1991 reflected growth from business acquisitions and confectionery selling price increases, and volume growth from the Corporation's pasta, international and refrigerated puddings businesses. The 1990 increase was due to unit volume growth from a combination of business acquisitions, new product introductions and existing brands.

Costs and Expenses

Cost of sales as a percent of net sales decreased to 58.4% in 1991 from 58.5% in 1990 and 60.1% in 1989. The resulting increase in gross margin in 1991 was primarily due to confectionery price increases almost entirely offset by a higher average cost per pound of peanuts and cocoa beans, as well as increases in overhead and employee benefits costs. The increase in gross margin in 1990 reflected declines in cocoa bean and durum wheat costs, partially offset by increases in the average cost per pound of sugar, milk and peanuts.

Selling, marketing and administrative costs increased in 1991 primarily as a result of business acquisitions and increased promotion expenses offset somewhat by lower advertising expenses. The increase in selling, marketing and administrative costs in 1990, as a percent of net sales, primarily reflected higher expenditures and incremental programs in support of acquired and existing brands, as well as new product introductions.

Gain on Business Restructuring, Net

The Corporation's financial results for 1990 included a net pre-tax gain from business restructuring activities totaling $35.5 million. This gain, which increased net income by $20.3 million resulted from two events.

In May 1990, the Corporation sold its equity interest in Marabou for $78.0 million. The sale resulted in a gain of $60.5 million and had the effect of increasing net income by $35.3 million.

In the fourth quarter of 1990, the Corporation recorded a manufacturing restructuring charge of $25.0 million associated with the modernization and relocation of certain manufacturing operations. The charge related to existing production facilities that will be impacted by the chocolate-processing facility under construction in Hershey, Pa., and other manufacturing strategies associated with the Corporation's confectionery and pasta operations. This charge reduced net income by $15.0 million.

Interest Expense, Net

Net interest expense was $2.2 million higher in 1991 than 1990, due to the additional debt required on an interim basis to finance capital additions, working capital requirements and business acquisitions, offset partially by higher capitalized interest. Net interest expense increased by $4.2 million in 1990 as a result of increased borrowings associated with the Ronzoni acquisition and investments in working capital.

Provision for Income Taxes

The Corporation's effective income tax rate on income from operations was 39.6%, 40.3% and 41.0% in 1991, 1990 and 1989, respectively. The principal factors causing differences in the effective income tax rates among the years were changes in the mix of the Corporation's income among various tax jurisdictions and an increase in non-taxable income. Such changes more than offset an increase in the Pennsylvania corporate income tax rate in 1991.

Net Income

Excluding the effect of a net gain on business restructuring in 1990, net income increased $23.9 million or 12% in 1991, following a $24.5 million or 14% increase in 1990. Net income as a percent of net sales was 7.6% in 1991, 7.2% in 1990 after excluding the net gain on business restructuring, and 7.1% in 1989.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

For the years ended December 31,	1991	1990	1989
Cash Flows Provided from (Used by) Operating Activities			
Net income	$ 219,528	$ 215,882	$ 171,054
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	85,413	73,889	65,729
Deferred income taxes	20,654	(8,257)	3,369
Gain on business restructuring, net	—	(35,540)	—
Changes in assets and liabilities, net of effects from business acquisitions:			
Accounts receivable—trade	(6,404)	(21,028)	44,846
Inventories	(43,949)	(61,447)	(1,082)
Accounts payable	4,070	23,300	(26,546)
Other assets and liabilities	94,270	(5,398)	3,080
Other, net	(26,242)	5,105	5,195
Net Cash Provided from Operating Activities	347,340	186,506	265,645
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	(226,071)	(179,408)	(162,032)
Business acquisitions	(44,108)	(78,153)	—
Sale of equity interest	—	78,041	—
Other, net	(1,510)	(4,501)	(2,316)
Net Cash (Used by) Investing Activities	(271,689)	(184,021)	(164,348)
Cash Flows Provided from (Used by) Financing Activities			
Net increase in short-term debt	56,489	1,131	—
Long-term borrowings	23,620	77,117	1,794
Repayment of long-term debt	(27,861)	(18,567)	(55,105)
Repayment of assumed debt	—	(250)	—
Loan to ESOP	(47,902)	—	—
Proceeds from sale of Common Stock to ESOP	47,902	—	—
Cash dividends paid	(83,401)	(87,757)	(65,592)
Net Cash (Used by) Financing Activities	(31,153)	(28,326)	(118,903)
Increase (Decrease) in Cash and Cash Equivalents	44,498	(25,841)	(17,606)
Cash and Cash Equivalents as of January 1	26,626	52,467	70,073
Cash and Cash Equivalents as of December 31	$ 71,124	$ 26,626	$ 52,467

Interest Paid	$ 24,468	$ 26,085	$ 21,329
Income Taxes Paid	$ 119,038	$ 147,099	$ 106,218

The notes to consolidated financial statements are an integral part of these statements.

Summary

Over the past three years, cash requirements for capital additions, dividend payments, and business acquisitions exceeded cash provided from operating activities and the sale of the Corporation's equity interest in Marabou in 1990 by $49.0 million. Total debt, including debt assumed in business acquisitions, increased during the period by $79.6 million. Cash and cash equivalents increased by $1.1 million during the period.

The Corporation's cash provided from operations during the year is affected by seasonal sales patterns. Chocolate and confectionery seasonal and holiday related sales are typically highest during the third and fourth quarters of the year, representing the principal seasonal effect. Generally, the Corporation's seasonal working capital needs peak during the summer months and are met by issuing commercial paper.

Operating Activities

Depreciation and amortization have increased significantly as a result of continuous investment in capital additions and business acquisitions. Cash requirements for accounts receivable and inventories have tended to fluctuate during the three-year period based on sales during December and inventory management practices. The 1991 increase in cash flow provided from other assets and liabilities was primarily related to commodities transactions and the corporate owned life insurance program.

Investing Activities

Investing activities included capital additions, business acquisitions and, in 1990, the gross proceeds from the sale of the Corporation's equity interest in Marabou. The income taxes paid in 1990 on the Marabou gain were included in operating activities. Capital additions during the past three years included manufacturing equipment, construction of new facilities and expansion of existing facilities. Cash used for business acquisitions reflected current assets, property, plant and equipment, and intangibles acquired, net of liabilities assumed. Businesses acquired during the past three years included Gubor, the aseptically-packaged drink business, and NDD in 1991, and Ronzoni in 1990.

Financing Activities

Financing activities included debt borrowings and repayments, payment of dividends and, in 1991, ESOP transactions. In each of the past three years, short-term borrowings in the form of domestic commercial paper or short-term commercial bank borrowings were required to fund seasonal working capital requirements. In February 1991, the Corporation issued $100 million of Debentures under its Form S-3 Registration Statement which was declared effective in June 1990. A portion of the proceeds from issuance of the Debentures was used to repay $76.7 million of domestic commercial paper borrowings which were classified as long-term debt as of December 31, 1990.

In the fourth quarter of 1991, the Corporation established an ESOP to serve as the vehicle for the Corporation's contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 7.75% loan of $47.9 million from the Corporation. The proceeds from this loan were used by the ESOP to purchase from the Corporation 1,193,816 shares of its Common Stock at a market price of $40⅛ per share. This stock had been acquired by the Corporation through open market purchases. The Corporation will begin making contributions to the ESOP in 1992. ESOP loan payments are due quarterly through 2006.

In September 1990, the Corporation paid a one-time special dividend of $13.3 million from the $52.8 million of after-tax proceeds realized upon the sale of the Corporation's equity interest in Marabou. Regular cash dividends paid increased 12% in 1991 over 1990, and 14% in 1990 over 1989.

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

December 31,	1991	1990
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 71,124	$ 26,626
Accounts receivable—trade	159,805	142,971
Inventories	436,917	379,108
Prepaid expenses and other	76,633	113,080
Total current assets	744,479	661,785
Property, Plant and Equipment, Net	1,145,666	952,094
Intangibles Resulting from Business Acquisitions	421,694	417,645
Other Assets	29,983	47,304
	$2,341,822	$2,078,828
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 137,890	$ 127,572
Accrued liabilities	226,267	170,179
Accrued income taxes	22,000	19,126
Short-term debt and current portion of long-term debt	84,575	24,356
Total current liabilities	470,732	341,233
Long-term Debt	282,933	273,442
Other Long-term Liabilities	80,907	66,159
Deferred Income Taxes	171,999	154,457
Total liabilities	1,006,571	835,291
Stockholders' Equity:		
Preferred Stock, outstanding shares: none in 1991 and 1990	—	—
Common Stock, outstanding shares: 74,921,282 in 1991 and 74,909,932 in 1990	74,921	74,910
Class B Common Stock, outstanding shares: 15,265,054 in 1991 and 15,276,404 in 1990	15,265	15,276
Additional paid-in capital	52,509	49,249
Cumulative foreign currency translation adjustments	26,424	26,195
Unearned ESOP compensation	(47,902)	—
Retained earnings	1,214,034	1,077,907
Total stockholders' equity	1,335,251	1,243,537
	$2,341,822	$2,078,828

The notes to consolidated financial statements are an integral part of these balance sheets.

Assets

Current assets increased $82.7 million as of December 31, 1991, reflecting higher inventories and cash and cash equivalents. The increase in inventories was primarily the result of additional purchases of raw materials, particularly cocoa beans, and the inclusion of inventories of acquired businesses. Increased cash generated from operations in the fourth quarter of 1991 compared to 1990 was the primary reason for the higher level of cash and cash equivalents as of December 31, 1991.

The $193.6 million net increase in property, plant and equipment included $40.4 million of assets acquired through business acquisitions. Capital additions totaled $226.1 million in 1991, while depreciation expense amounted to $72.7 million.

The increase in intangibles resulting from business acquisitions as of December 31, 1991, principally reflected the preliminary accounting for 1991 business acquisitions offset by amortization of intangibles.

The decrease in other assets as of December 31, 1991, primarily reflected the use of previously acquired stock to establish an ESOP in 1991.

Liabilities

The $60.2 million increase in short-term debt was principally a result of fourth quarter domestic commercial paper borrowings to finance capital additions and repay long-term debt as it matured.

Accrued liabilities increased $56.1 million as of December 31, 1991, due mainly to increases in accrued interest, liabilities assumed as part of business acquisitions, accrued compensation and accrued promotions.

In February 1991, the Corporation issued $100 million of 8.8% Debentures due 2021. A portion of the proceeds from issuance of the Debentures was used to repay commercial paper borrowings which were classified as long-term debt as of December 31, 1990.

The deferred income tax liability as of December 31, 1991 and 1990 has been provided based upon statutory corporate income tax rates in effect at the time of the underlying transactions. As further discussed in Note 8, the Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS No. 109), which must be adopted by 1993 and will modify the way the Corporation accounts for income taxes. Upon adoption, the Corporation has the option to record the entire adjustment in the year of adoption or retroactively restate prior years. The Corporation has not decided in which year it will adopt FAS No. 109, nor has it decided which option it will utilize. However, management believes that based on the current Federal statutory corporate income tax rate, either method, when adopted, will have a favorable impact on net income.

The FASB has also issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions" (FAS No. 106). FAS No. 106 must be adopted no later than 1993 and requires that the expected cost of post-retirement benefits be accrued during the years that employees render the necessary service. Presently, the Corporation expenses these benefits as paid.

As further discussed in Note 9, the Corporation has not decided when it will adopt FAS No. 106, nor has the precise impact that adoption will have on the Corporation's reported financial position and results of operations been determined. However, management expects the accumulated post-retirement benefit obligation as of the implementation date to be in the range of $200 million to $250 million before income taxes and the expense under FAS No. 106 to be in the pre-tax range of $25 million to $30 million.

As part of its long-range financing plans, the Corporation, in 1989, implemented a corporate owned life insurance program covering most of its domestic employees. After paying employee death benefits, proceeds from this program will be available for general Corporate purposes and may be used to offset future employee benefits costs including retiree medical benefits.

Stockholders' Equity

Total stockholders' equity rose 7% in 1991 and has increased at a compound annual rate of 13% over the past five years.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands of dollars)

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Cumulative Foreign Currency Translation Adjustments	Unearned ESOP Compensation	Retained Earnings	Total Stockholders' Equity
Balance as of January 1, 1989	$ —	$74,907	$15,279	$50,779	$20,581	$ —	$ 844,320	$1,005,866
Net income							171,054	171,054
Dividends—Common Stock and Class B Common Stock							(65,592)	(65,592)
Foreign currency translation adjustments					6,289			6,289
Incentive plan transactions				(567)				(567)
Balance as of December 31, 1989	—	74,907	15,279	50,212	26,870	—	949,782	1,117,050
Net income							215,882	215,882
Dividends—Common Stock and Class B Common Stock							(87,757)	(87,757)
Foreign currency translation adjustments					(675)			(675)
Conversion of Class B Common Stock into Common Stock		3	(3)					—
Incentive plan transactions				(963)				(963)
Balance as of December 31, 1990	—	74,910	15,276	49,249	26,195	—	1,077,907	1,243,537
Net income							**219,528**	**219,528**
Dividends—Common Stock and Class B Common Stock							**(83,401)**	**(83,401)**
Foreign currency translation adjustments					**229**			**229**
Conversion of Class B Common Stock into Common Stock		**11**	**(11)**					—
Incentive plan transactions				**(446)**				**(446)**
Employee stock ownership trust transactions				**3,706**		**(47,902)**		**(44,196)**
Balance as of December 31, 1991	**$ —**	**$74,921**	**$15,265**	**$52,509**	**$26,424**	**$(47,902)**	**$1,214,034**	**$1,335,251**

The notes to consolidated financial statements are an integral part of these statements.

1. Summary of Significant Accounting Policies

Significant accounting policies employed by the Corporation are discussed below and in Notes 3, 8, 9, 12 and 13. Certain reclassifications have been made to prior year amounts to conform to the 1991 presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions. Investments in affiliated companies are accounted for using the equity method.

Cash Equivalents

All highly liquid debt instruments purchased with a maturity of three months or less are classified as cash equivalents.

Commodities Futures and Options Contracts

In connection with the purchasing of major commodities (principally cocoa and sugar) for anticipated manufacturing requirements, the Corporation enters into commodities futures and options contracts as deemed appropriate to reduce the risk of future price increases. These futures and options contracts are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment is computed using the straight-line method over the estimated useful lives.

Intangibles Resulting from Business Acquisitions

Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill is amortized on a straight-line basis over 40 years. Other intangible assets are amortized on a straight-line basis over their estimated useful lives.

Accumulated amortization of intangible assets resulting from business acquisitions was $50.1 million and $37.6 million as of December 31, 1991 and 1990, respectively.

Foreign Currency Translation

Results of operations for international entities are translated using the average exchange rates during the period. For international entities operating in non-highly inflationary economies, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded in a separate component of stockholders' equity, "Cumulative Foreign Currency Translation Adjustments."

Foreign Exchange Contracts

The Corporation enters into foreign exchange contracts to hedge transactions denominated in international currencies and to hedge payment of intercompany transactions with its non-domestic subsidiaries. Gains and losses are recognized as part of the underlying transactions.

License Agreements

The Corporation has entered into license agreements under which it has access to proprietary technology and manufactures and/or markets and distributes certain products. The Corporation's rights under these agreements are extendable on a long-term basis at the Corporation's option subject to certain conditions, including minimum sales levels. License fees and royalties, payable under the terms of the agreements, are expensed as incurred.

2. Gain on Business Restructuring, Net

The Corporation's financial results for 1990 included a net pre-tax gain from business restructuring activities totaling $35.5 million. This gain, which increased net income by $20.3 million, resulted from two events. In May 1990, the Corporation sold its equity interest in AB Marabou for $78.0 million. The sale resulted in a gain of $60.5 million and had the effect of increasing net income by $35.3 million. In the fourth quarter of 1990, the Corporation recorded a manufacturing restructuring charge of $25.0 million associated with the modernization and relocation of certain manufacturing operations. This charge reduced net income by $15.0 million.

3. Acquisitions

In October 1991, the Corporation purchased the shares of Nacional de Dulces, S.A. de C.V. (NDD) owned by its joint venture partner, Grupo Carso, S.A. de C.V., for $10.0 million. Prior to the acquisition, the Corporation owned 50% of the outstanding stock of NDD. NDD has its main offices and manufacturing plant in Guadalajara, Mexico. It produces, imports and markets chocolate products in the Mexican market under the *Hershey's* brand name.

In May 1991, the Corporation purchased certain assets of Dairymen, Inc.'s ultra-high temperature fluid milk-processing business, including a Savannah, Georgia manufacturing facility for $2.2 million, plus the assumption of $8.5 million in debt. The purchase price included a $.2 million adjustment based upon a final determination of inventory balances as of the acquisition date.

Also in May 1991, the Corporation completed the acquisition of the Gubor Schokoladen GmbH and Gubor Schokoladenfabrik GmbH (Gubor) chocolate business from H. Bahlsens Keksfabrik KG for $31.9 million, plus the assumption of $9.0 million in debt. Gubor manufactures and markets high-quality assorted pralines and seasonal chocolates in Germany. The acquisition was effective as of January 1, 1991.

In February 1990, the Corporation purchased all of the outstanding voting securities of Ronzoni Foods Corporation (Ronzoni) from Kraft General Foods, Inc. for $78.2 million, plus the assumption of $3.7 million in debt. The purchase included Ronzoni's dry pasta, pasta sauces and cheese businesses.

In accordance with the purchase method of accounting, the purchase prices for the above acquisitions were allocated to the underlying assets and liabilities at the date of acquisition based on their estimated respective fair values, which may be revised at a later date. Results subsequent to the dates of acquisition are included in the consolidated financial statements. Had the results of these acquisitions been included in consolidated results for the entire length of each period presented, the effect would not have been material.

4. Capital Stock and Net Income Per Share

As of December 31, 1991, the Corporation had 530,000,000 authorized shares of capital stock. Of this total, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock (Class B Stock), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share. As of December 31, 1991, there was a combined total of 90,186,336 shares of both classes of common stock outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 1991.

The Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 1991 and 1990, 11,350 and 2,900 shares, respectively, of Class B Stock were converted into Common Stock. There were no conversions of Class B Stock into Common Stock during 1989.

Hershey Trust Company, as Trustee for Milton Hershey School, as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 23,444,348 shares of the Common Stock, and, as Trustee for Milton Hershey School, held 15,153,003 shares of the Class B Stock as of December 31, 1991, and is entitled to cast approximately 77% of the total votes of both classes of the Corporation's common stock. Hershey Trust Company, as Trustee for Milton Hershey School, must approve the issuance of shares of Common Stock or any other action which would result in the Hershey Trust Company, as Trustee for Milton Hershey School, not continuing to have voting control of the Corporation.

Net income per share has been computed based on the 90,186,336 weighted average number of shares of the Common Stock and the Class B Stock outstanding during the year, for all years presented.

5. Interest Expense

Interest expense, net consisted of the following:

For the years ended December 31, *(in thousands of dollars)*	1991	1990	1989
Long-term debt and lease obligations	**$ 32,252**	$24,258	$27,492
Short-term debt	**7,403**	7,936	2,610
Capitalized interest	**(10,386)**	(5,875)	(6,594)
	29,269	26,319	23,508
Interest income	**(2,424)**	(1,716)	(3,094)
Interest expense, net	**$ 26,845**	$24,603	$20,414

6. Short-term Debt

Generally, the Corporation's short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. The Corporation maintained lines of credit arrangements with commercial banks, under which it could borrow up to $168 million as of December 31, 1991 and $150 million as of December 31, 1990 at the lending banks' prime commercial interest rates or lower. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the Corporation. The Corporation had outstanding domestic commercial paper borrowings and short-term international bank loans against these lines of credit of $53.5 million and $4.2 million, respectively, as of December 31, 1991 and $76.7 million and $1.1 million, respectively, as of December 31, 1990. As described in Note 7, the outstanding commercial paper borrowings as of December 31, 1990, were classified as long-term debt.

Lines of credit were supported by commitment fee arrangements. The fees were generally 1/8% per annum of the commitment. There were no significant compensating balance agreements which legally restricted these funds.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions at certain banks. Such overdrafts, which were included in accounts payable, were $23.5 million and $40.5 million as of December 31, 1991 and 1990, respectively.

7. Long-term Debt

Long-term debt consisted of the following:

December 31, *(in thousands of dollars)*	1991	1990
Medium-term Notes, 8.45% to 9.92%, due 1991-1998	**$ 73,800**	$ 88,800
Commercial Paper Borrowings	**—**	76,654
9.5% Sinking Fund Debentures due 2009	**49,500**	52,500
9.125% Sinking Fund Debentures due 2016	**50,000**	50,000
8.8% Debentures due 2021	**100,000**	—
Other obligations, net of unamortized debt discount	**36,588**	28,713
	309,888	296,667
Less — current portion	**26,955**	23,225
Total long-term debt	**$282,933**	$273,442

In February 1991, the Corporation issued $100 million of 8.8% Debentures due 2021 (Debentures) under its Form S-3 Registration Statement, which was declared effective in June 1990. A portion of the proceeds from issuance of the Debentures was used to repay $76.7 million of domestic commercial paper borrowings outstanding as of December 31, 1990 which were classified as long-term debt.

Aggregate annual maturities and sinking fund requirements during the next five years, net of repurchased debentures, are: 1992, $27.0 million; 1993, $9.7 million; 1994, $17.1 million; 1995, $10.4 million; and 1996, $5.0 million. Primarily all of the Corporation's debt is unsecured and is of equal priority. The Corporation is in compliance with all covenants included in the related debt agreements.

8. Income Taxes

The provision for income taxes is based on income before income taxes as reported in the consolidated statements of income. Tax credits are recognized as a reduction in the provision using the flow-through method.

Deferred income taxes are provided to reflect timing differences between reported results of operations for financial statement and income tax purposes. Timing differences related primarily to accelerated depreciation, employee benefits expenses, promotion expenses and, in 1990, the manufacturing restructuring charge. The provision for income taxes on income from operations was as follows:

For the years ended December 31,	1991	1990	1989
(in thousands of dollars)			
Current:			
Federal	**$ 96,074**	$121,924	$ 88,083
State	**25,128**	17,580	20,952
International	**2,073**	14,389	6,464
Current provision for income taxes	**123,275**	153,893	115,499
Deferred:			
Federal	**12,618**	(3,185)	2,110
State	**6,111**	6,726	(489)
International	**1,925**	(11,798)	1,748
Deferred provision (benefit) for income taxes	**20,654**	(8,257)	3,369
Total provision for income taxes	**$143,929**	$145,636	$118,868

The following table reconciles the Federal statutory income tax rate with the Corporation's effective income tax rate:

For the years ended December 31,	1991	1990	1989
Federal statutory tax rate	**34.0%**	34.0%	34.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	**5.5**	4.4	4.7
Non-deductible acquisition costs	**1.0**	1.0	1.1
Corporate owned life insurance	**(1.1)**	(0.5)	(0.1)
Other, net	**0.2**	1.4	1.3
Effective income tax rate	**39.6%**	40.3%	41.0%

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS No. 109). FAS No. 109 accounting and disclosure rules must be adopted no later than 1993, although earlier implementation is permitted. The Corporation has not implemented the new standard. When the Corporation does adopt the new accounting rules, it may record the entire catch-up effect in the year of adoption or it may retroactively restate prior financial statements. The Corporation has not decided which option it will utilize nor in which year it will implement the change. However, management believes that based on the current Federal statutory corporate income tax rate, either method, when adopted, will have a favorable impact on net income.

9. Retirement Plans and Other Benefits

The Corporation and its subsidiaries sponsor a number of defined benefit retirement plans covering substantially all employees. Plans covering most domestic salaried and hourly employees provide retirement benefits based on individual account balances which are increased annually by pay-related and interest credits. Plans covering certain non-domestic employees provide retirement benefits based on career average pay, final pay, years of service or final average pay as defined within the provisions of the individual plans. The Corporation also participates in several multi-employer retirement plans which provide defined benefits to employees covered under certain collective bargaining agreements.

The Corporation's policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and Federal income tax laws. Non-domestic pension liabilities are funded in accordance with applicable local laws and regulations. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities.

Pension expense included the following components:

For the years ended December 31,	1991	1990	1989
(in thousands of dollars)			
Service cost	$ 20,056	$ 19,369	$ 12,741
Interest cost on projected benefit obligation	22,148	18,392	19,262
Investment loss (return) on plan assets	(53,627)	2,427	(39,125)
Net amortization and deferral	30,161	(27,420)	16,707
Corporate sponsored plans	18,738	12,768	9,585
Multi-employer plans	1,231	1,603	1,252
Other	645	801	919
Total pension expense	$ 20,614	$ 15,172	$ 11,756

The funded status and amounts recognized in the consolidated balance sheets for the retirement plans were as follows:

	December 31, 1991		December 31, 1990	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
(in thousands of dollars)				
Actuarial present value of:				
Vested benefit obligation	$238,780	$ 32,524	$222,127	$ 14,121
Accumulated benefit obligation	$254,468	$ 39,406	$235,368	$ 18,976
Actuarial present value of projected benefit obligation	$280,647	$ 48,020	$263,216	$ 20,396
Plan assets at fair value	295,743	9,554	257,111	2,384
Plan assets greater than (less than) projected benefit obligation	15,096	(38,466)	(6,105)	(18,012)
Net (gain) loss unrecognized at date of transition	(1,809)	3,255	(2,058)	3,975
Prior service cost not yet recognized in earnings	6,864	959	9,024	136
Unrecognized net (gain) loss from past experience different than that assumed	(11,118)	5,835	9,705	3,562
Minimum liability adjustment	—	(5,300)	—	(5,928)
Prepaid pension expense (pension liability)	$ 9,033	$(33,717)	$ 10,566	$(16,267)

The projected benefit obligation for the plans was determined principally using a discount rate of 7.5% in both 1991 and 1990. For both years the assumed long-term compensation increase rate and the assumed long-term rate of return on plan assets were primarily 6.0% and 9.5%, respectively.

The Corporation and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Corporation's domestic employees become eligible for these benefits at early retirement age. Retiree health care and life insurance premiums of $4.3 million, $3.6 million, and $2.9 million, were expensed as paid during 1991, 1990, and 1989, respectively.

The FASB has issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions" (FAS No. 106). FAS No. 106 requires that the expected cost of post-retirement benefits be accrued during the years that employees render the necessary service. The Corporation is required to adopt FAS No. 106 no later than 1993, although earlier implementation is permitted, and has the option of doing so either prospectively or by means of a cumulative catch-up adjustment.

The Corporation has not decided when it will adopt FAS No. 106 or which option it will utilize. Management has not yet determined the precise impact that adoption will have on the Corporation's reported financial position and results of operations. However, management expects the accumulated post-retirement benefit obligation as of the implementation date to be in the range of $200 million to $250 million before income taxes and the expense under FAS No. 106 to be in the pre-tax range of $25 million to $30 million.

As part of its long-range financing plans, the Corporation, in 1989, implemented a corporate owned life insurance program covering most of its domestic employees. After paying employee death benefits, proceeds from this program will be available for general Corporate purposes and may be used to offset future employee benefits costs including retiree medical benefits. The Corporation's investment in corporate owned life insurance policies was recorded net of policy loans in other assets, and interest accrued on the policy loan was included in accrued liabilities. Net life insurance expense, including interest expense, was included in selling, marketing and administrative expenses.

10. Employee Stock Ownership Trust

In the fourth quarter of 1991, the Corporation established an employee stock ownership trust (ESOP) to serve as the vehicle for the Corporation's contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 7.75% loan of $47.9 million from the Corporation. The proceeds from this loan were used by the ESOP to purchase from the Corporation 1,193,816 shares of its Common Stock at a market price of $40 1/8 per share. This stock had been acquired by the Corporation through open market purchases. The Corporation will begin making contributions to the ESOP in 1992.

Future contributions made by the Corporation plus dividends earned on shares held by the ESOP will be used to meet interest and principal payments on the loan over the 15-year term. Shares are released for allocation to eligible employees based on these future interest and principal payments. The unearned ESOP compensation balance in stockholders' equity represents future compensation expenses to be paid by the Corporation related to the ESOP program and will be reduced as shares are allocated.

11. Incentive Plan

The long-term portion of the 1987 Key Employee Incentive Plan (Plan) provides for grants or awards to senior executives and key employees of one or more of the following: performance stock units, non-qualified stock options (stock options), stock appreciation rights and restricted stock units.

As of December 31, 1991, 210,200 contingent performance stock units and restricted stock units had been granted for potential future distribution, primarily related to three-year cycles ending December 31, 1991, 1992 and 1993. The Plan provides for the deferral of performance stock unit awards by participants. Deferred performance stock units and accumulated dividend amounts totaled 236,448 shares as of December 31, 1991.

Stock options are granted at exercise prices of not less than 100% of the fair market value of a share of Common Stock at the time the option is granted and are exercisable for periods no longer than ten years from the date of grant. Each option may be used to purchase one share of Common Stock. No compensation expense is recognized under the stock options portion of the Plan.

The following table provides information regarding stock options:

	Shares under Options	
	Number of Shares	Option Price per Share
Outstanding — January 1, 1989	374,450	$23³/₄ to 28
Granted	55,000	$26 to 26³/₈
Exercised	(3,250)	$25³/₈ to 28
Cancelled	(10,500)	$25³/₈ to 28
Outstanding — December 31, 1989	415,700	$23³/₄ to 28
Granted	502,700	$35³/₈
Exercised	(77,840)	$25³/₈ to 28
Cancelled	(5,600)	$35³/₈
Outstanding — December 31, 1990	834,960	$23³/₄ to 35³/₈
Granted	**59,800**	**$36¹/₄**
Exercised	**(30,135)**	**$23³/₄ to 28**
Cancelled	**(7,500)**	**$35³/₈**
Outstanding — December 31, 1991	**857,125**	**$23³/₄ to 36¹/₄**

No stock appreciation rights had been granted or awarded as of December 31, 1991.

12. Supplemental Income Statement Information

Supplemental income statement information is provided in the table below. These costs were expensed in the year incurred.

For the years ended December 31,	**1991**	1990	1989
(in thousands of dollars)			
Promotion	**$325,465**	$315,242	$256,237
Advertising	**117,049**	146,297	121,182
Maintenance and repairs	**72,192**	66,203	58,842
Depreciation expense	**72,735**	61,725	54,543
Rent expense	**23,288**	20,758	20,033
Research and development	**22,770**	19,152	16,094

Rent expense pertains to all operating leases, which were principally related to certain administrative buildings, distribution facilities and transportation equipment. Future minimum rental payments under non-cancelable operating leases with a remaining term in excess of one year as of December 31, 1991, were: 1992, $9.5 million; 1993, $9.3 million; 1994, $11.4 million; 1995, $10.5 million; 1996, $10.5 million; 1997 and beyond, $123.1 million.

Amounts for taxes other than payroll and income taxes, amortization of intangibles resulting from business acquisitions, and royalties were less than 1% of net sales.

13. Supplemental Balance Sheet Information

Accounts Receivable—Trade

In the normal course of business, the Corporation extends credit to customers which satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Receivables, as shown on the consolidated balance sheets, were net of allowances of $9.5 million and $9.6 million as of December 31, 1991 and 1990, respectively.

Inventories

The majority of the Corporation's inventories are valued under the last-in, first-out (LIFO) method. The remaining inventories are stated at the lower of first-in, first-out (FIFO) cost or market. All inventories are stated at amounts that do not exceed realizable values. LIFO cost of inventories valued using the LIFO method was $334.5 million as of December 31, 1991 and $290.0 million as of December 31, 1990. Total inventories were as follows:

December 31, *(in thousands of dollars)*	1991	1990
Raw materials	$236,846	$200,030
Goods in process	30,039	35,020
Finished goods	227,405	199,724
Inventories at FIFO	494,290	434,774
Adjustment to LIFO	(57,373)	(55,666)
Total inventories	$436,917	$379,108

Property, Plant and Equipment

Property, plant and equipment balances included construction in progress of $170.5 million and $150.0 million as of December 31, 1991 and 1990, respectively.

Major classes of property, plant and equipment were as follows:

December 31, *(in thousands of dollars)*	1991	1990
Land	$ 37,911	$ 31,117
Buildings	384,117	280,897
Machinery and equipment	1,159,268	1,011,629
	1,581,296	1,323,643
Accumulated depreciation	435,630	371,549
Property, plant and equipment, net	$1,145,666	$ 952,094

Accrued Liabilities

Accrued liabilities were as follows:

December 31, *(in thousands of dollars)*	1991	1990
Payroll and other compensation	$ 55,346	$ 48,273
Advertising and promotion	63,344	58,758
Interest	24,366	3,486
Other	83,211	59,662
Total accrued liabilities	$226,267	$170,179

14. Segment Information

The Corporation operates in one line of business — consumer foods, involving the manufacture, distribution and sale of chocolate, confectionery, pasta and other food products.

The table below presents information about the Corporation's domestic and international operations. The international amounts presented represent primarily Canadian operations. Transfers of product between geographic areas were not significant.

For the years ended December 31, *(in thousands of dollars)*	**1991**	1990	1989
Net sales:			
Domestic	**$2,566,448**	$2,508,542	$2,235,728
International	**332,717**	207,067	185,260
Total	**$2,899,165**	$2,715,609	$2,420,988
Income before interest and income taxes:			
Domestic	**$ 381,549**	$ 344,303	$ 306,705
International	**8,753**	6,278	3,631
Gain on Business Restructuring, Net	**—**	35,540	—
Total	**$ 390,302**	$ 386,121	$ 310,336
Identifiable assets as of December 31:			
Domestic	**$2,003,425**	$1,820,434	$1,561,187
International	**338,397**	258,394	252,914
Total	**$2,341,822**	$2,078,828	$1,814,101

15. Quarterly Data (Unaudited)

Summary quarterly results were as follows:

(in thousands of dollars except per share amounts)

Year 1991	**First**	**Second**	**Third**	**Fourth**	**Year**
Net sales	**$684,565**	**$585,166**	**$765,502**	**$863,932**	**$2,899,165**
Gross profit	**272,733**	**245,703**	**319,754**	**366,571**	**1,204,761**
Net income	**48,636**	**31,903**	**64,085**	**74,904**	**219,528**
Net income per share[a]	**.54**	**.35**	**.71**	**.83**	**2.43**

Year 1990	First	Second	Third	Fourth	Year
Net sales	$681,244	$535,861	$735,438	$763,066	$2,715,609
Gross profit	281,924	221,699	302,004	321,622	1,127,249
Net income	47,090	65,844[b]	56,557	46,391[b]	215,882[b]
Net income per share[a]	.52	.73[b]	.63	.51[b]	2.39[b]

[a] The weighted average number of shares outstanding was 90,186,336 for all periods presented.

[b] Net income for the second quarter, fourth quarter and year 1990, included the after-tax impact of the Gain on Business Restructuring, Net of $35.3 million, $(15.0) million, and $20.3 million, respectively. Net income per share was similarly impacted.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Corporation believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Corporation believes its system provides an appropriate balance in this regard. The Corporation maintains an Internal Audit Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been audited by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 29, 1991. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their examination was performed in accordance with generally accepted auditing standards which are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The Audit Committee of the Board of Directors of the Corporation, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1991, appearing on pages 22, 24, 26, 28 and 29 through 37. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1991 and 1990, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

New York, N.Y.
February 11, 1992

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and Chief Executive Officer

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Hershey Chocolate U.S.A.

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President and
Chief Operating Officer

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Joseph P. Viviano
Kenneth L. Wolfe

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and Chief Executive Officer

Kenneth L. Wolfe
President and
Chief Operating Officer

William Lehr, Jr.
Senior Vice President
and Secretary

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Senior Vice President
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Vice President
Corporate Communications

Frank Cerminara
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Corporate Development
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Vice President and Treasurer

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John B. Stiles
Vice President and
Corporate Controller

Dr. Barry L. Zoumas
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Hershey International

Richard W. Meyers
President
Hershey Canada Inc.

C. Mickey Skinner
President
Hershey Pasta Group

Joseph P. Viviano
President
Hershey Chocolate U.S.A.

SIX-YEAR CONSOLIDATED FINANCIAL SUMMARY

(all dollar and share amounts in thousands except market price and per share statistics)	**1991**	1990	1989	1988	1987	1986
Summary of Operations[a]						
Net Sales	**$2,899,165**	2,715,609	2,420,988	2,168,048	1,863,816	1,635,486
Cost of Sales	**$1,694,404**	1,588,360	1,455,612	1,326,458	1,149,663	1,032,061
Selling, Marketing and Administrative	**$ 814,459**	776,668	655,040	575,515	468,062	387,227
Gain on Business Restructuring, Net	**$ —**	35,540	—	—	—	—
Interest Expense, Net	**$ 26,845**	24,603	20,414	29,954	22,413	8,061
Income Taxes	**$ 143,929**	145,636	118,868	91,615	99,604	100,931
Income from Continuing Operations	**$ 219,528**	215,882	171,054	144,506	124,074	107,206
Discontinued Operations	**$ —**	—	—	69,443	24,097	25,558
Net Income	**$ 219,528**	215,882	171,054	213,949	148,171	132,764
Income Per Share from Continuing Operations	**$ 2.43**	2.39[f]	1.90	1.60	1.38	1.15
Net Income Per Share	**$ 2.43**	2.39[f]	1.90	2.37	1.64	1.42
Weighted Average Shares Outstanding	**90,186**	90,186	90,186	90,186	90,186	93,508
Dividends Paid on Common Stock	**$ 70,426**	74,161[c]	55,431	49,433	43,436	40,930
Per Share	**$ .940**	.990[c]	.740	.660	.580	.520
Dividends Paid on Class B Common Stock	**$ 12,975**	13,596[c]	10,161	9,097	8,031	7,216
Per Share	**$ .850**	.890[c]	.665	.595	.525	.472
Income from Continuing Operations before Interest and Income Taxes as a Percent of Net Sales	**13.5%**	12.9%[d]	12.8%	12.3%	13.2%	13.2%
Income from Continuing Operations as a Percent of Net Sales	**7.6%**	7.2%[d]	7.1%	6.7%	6.7%	6.6%
Depreciation	**$ 72,735**	61,725	54,543	43,721	35,397	31,254
Advertising	**$ 117,049**	146,297	121,182	99,082	97,033	83,600
Promotion	**$ 325,465**	315,242	256,237	230,187	171,162	122,508
Payroll	**$ 398,661**	372,780	340,129	298,483	263,529	238,742
Year-end Position and Statistics[a]						
Working Capital	**$ 273,747**	320,552	281,821	273,716	190,069[e]	174,147
Capital Additions	**$ 226,071**	179,408	162,032	101,682	68,504	74,452
Total Assets	**$2,341,822**	2,078,828	1,814,101	1,764,665	1,544,354	1,262,332
Long-term Debt	**$ 282,933**	273,442	216,108	233,025	280,900	185,676
Stockholders' Equity	**$1,335,251**	1,243,537	1,117,050	1,005,866	832,410	727,941
Current Ratio	**1.6 : 1**	1.9 : 1	2.0 : 1	1.8 : 1	1.7 : 1[e]	2.0 : 1
Capitalization Ratio	**22%**	19%	17%	22%	27%	21%
Net Book Value Per Share	**$ 14.81**	13.79	12.39	11.15	9.23	8.07
Operating Return on Average Stockholders' Equity	**17.0%**	16.6%	16.1%	17.5%	19.0%	18.2%
Operating Return on Average Invested Capital	**13.8%**	13.4%	13.2%	13.3%	13.5%	13.5%
Full-time Employees at Year-end	**14,000**	12,700	11,800	12,100	10,540	10,210
Stockholders' Data						
Outstanding Shares of Common Stock and Class B Common Stock at Year-end	**90,186**	90,186	90,186	90,186	90,186	90,186
Market Price of Common Stock at Year-end	**$ 44⅜**	37½	35⅞	26	24½	24⅝
Range During Year	**$44½-35⅛**	39⅝-28¼	36⅞-24¾	28⅝-21⅞	37¾-20¾	30-15½
Year-end Common Stock and Class B Common Stock Holders	**31,029**	30,052	29,998	30,430	29,151	23,502
Approximate Annual Composite Trading Volume[b]	**27,975**	31,024	41,220	46,693	48,145	22,838

Notes:

(a) All amounts for years prior to 1988 have been restated for discontinued operations, where applicable. Operating Return on Average Stockholders' Equity and Operating Return on Average Invested Capital have been computed using Net Income, excluding the gain on the sale of Friendly Ice Cream Corporation and the Gain on Business Restructuring, Net.

(b) Composite trading volume for 1986 has not been adjusted for the three-for-one stock split effective September 15, 1986.

(c) Amounts included a special dividend for 1990 of $11.2 million or $.15 per share on Common Stock and $2.1 million or $.135 per share on Class B Common Stock.

(d) Operating margin before interest and income taxes, and operating margin, exclude the Gain on Business Restructuring, Net. Including the gain, operating margin before interest and income taxes and operating margin were 14.2% and 7.9%, respectively.

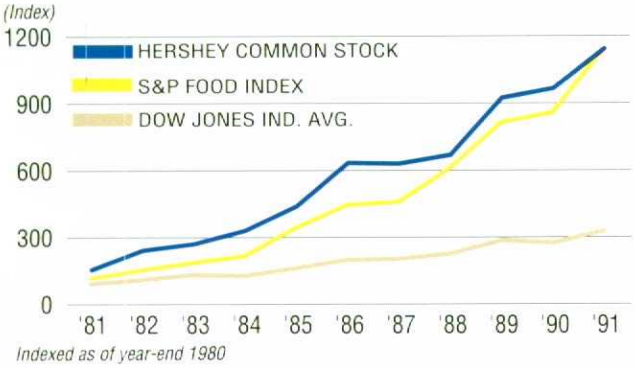
(e) Amounts exclude net assets of discontinued operations.

(f) Income Per Share from Continuing Operations and Net Income Per Share for 1990 included a $.22 per share Gain on Business Restructuring, Net. Excluding the impact of this gain, Income Per Share from Continuing Operations and Net Income Per Share would have been $2.17.

Stockholders

As of December 31, 1991, Hershey Foods Corporation had outstanding 74,921,282 shares of Common Stock and 15,265,054 shares of Class B Common Stock owned by 31,029 registered stockholders of record.

Hershey Foods Common Stock Performance vs. Selected Indices



Indexed as of year-end 1980

Stock Market Data

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." Class B Common Stock is not listed for trading. The stock tables of most financial publications list the Corporation as "Hershey." Options on the Corporation's Common Stock are traded on the American Stock Exchange.

Common Stock Profile

	Common Stock Price			Dividends Paid	
1991	**High**	**Low**	**Close**	**Common**	**Class B**
(calendar quarter)					
1st Qtr.	$42 3/8	$35 1/8	$40 7/8	$.225	$.2025
2nd Qtr.	43 7/8	39 5/8	40 3/4	.225	.2025
3rd Qtr.	42 5/8	38 1/2	38 7/8	.245	.2225
4th Qtr.	44 1/2	36 1/2	44 3/8	.245	.2225

Annual Meeting

The Annual Meeting of Stockholders will be held at 2:00 p.m. on Monday, April 27, 1992, at the Hershey Theatre, East Caracas Avenue (near Cocoa Avenue) in Hershey, Pa. A formal notice of this meeting, together with a proxy statement, will be mailed to stockholders on or about March 10, 1992.

Dividend Policy

Dividends on Hershey Foods Corporation's Common Stock and Class B Common Stock are declared by the Board of Directors, and are normally paid in the months of March, June, September and December.

The dividend to be paid on the Common Stock in March 1992 will be the 249th consecutive regular dividend paid by the Corporation. The dividend rate has been increased annually for 17 consecutive years. Historically, the Corporation has targeted approximately one-third of net income as dividends to stockholders.

Dividend Reinvestment Service

The Corporation offers an Automatic Dividend Reinvestment Service whereby Common Stock holders may build their investment by reinvesting dividends without paying brokerage commissions or service fees. Participants also may make voluntary cash payments of up to $20,000 annually, for which there are only nominal brokerage commissions and service fees. Approximately one-third of Hershey Foods Corporation's registered stockholders are enrolled in this Automatic Dividend Reinvestment Service. For more information, contact:

Manufacturers Hanover Trust Co.
Dividend Reinvestment Department
P. O. Box 24850
Church Street Station
New York, NY 10242-4850
Telephone: (212) 613-7147

Form 10-K

Form 10-K, filed annually in March with the Securities and Exchange Commission, is available without charge by contacting:

Office of the Corporate Secretary
Hershey Foods Corporation
P. O. Box 810
Hershey, PA 17033-0810
Telephone: (717) 534-7527

Stockholders Inquiries

Questions relating to stockholder records, change of ownership, change of address and dividend payments should be sent to the Corporation's Transfer Agent, Manufacturers Hanover Trust Co. listed on the inside front cover.

Financial Information

Security analysts, investment managers and stockholders should direct financial information inquiries to the Investor Relations contact listed on the inside front cover.

Hershey Foods Corporation
HERSHEY, PENNSYLVANIA 17033, U.S.A.